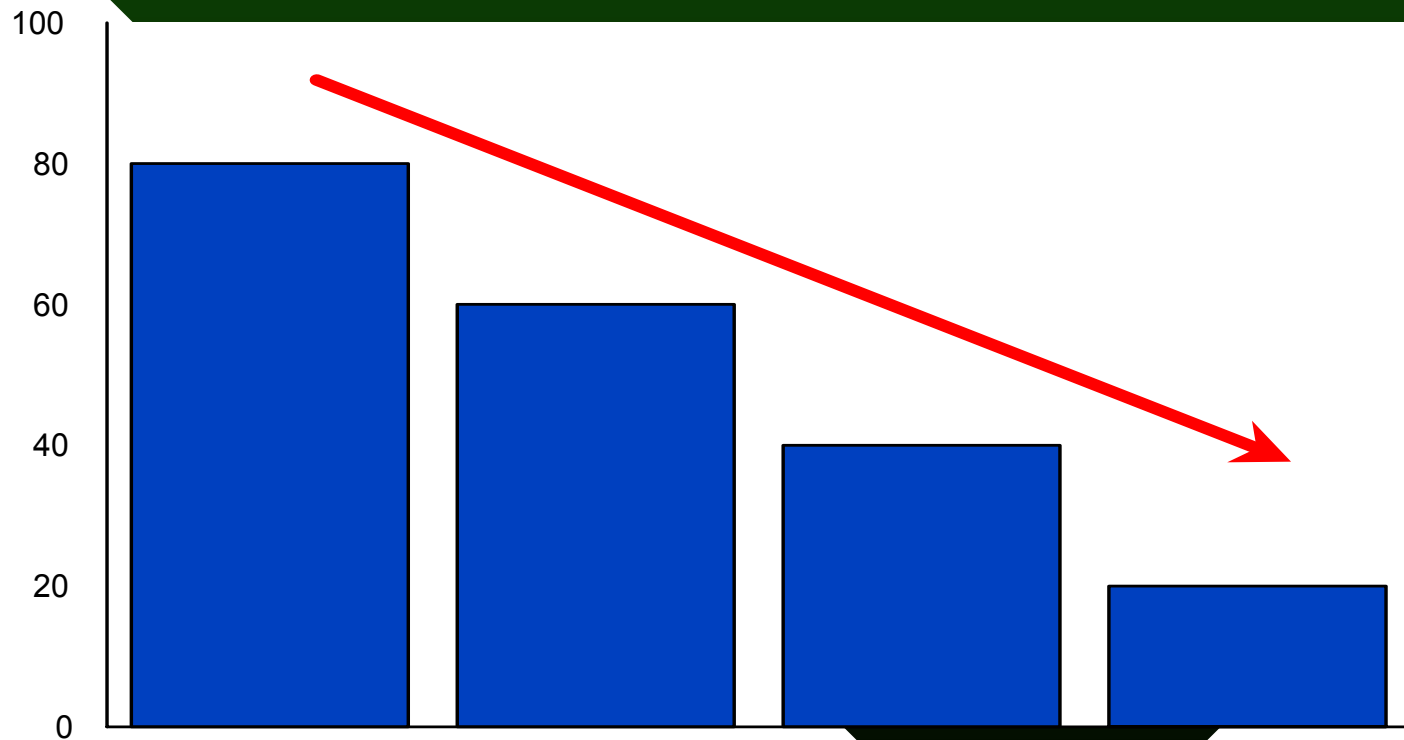


FMSIC BRIEFING

FUNCTIONAL SUPPORT COSTS

July 2002



What are Functional Support Costs ?

- Functional Support Activities are functions, required to be performed at DOE sites, to support direct mission activities
- Functional Support Costs are charged across programs and are not visible in DOE's programmatic budget and program structure
- The data is prepared by the contractor and obtained by analyzing information within the contractors' financial management system
- Functional Support costs are designed to reveal the magnitude and trends underlying specific activities

There are 22 Functional Support Costs categories grouped into 3 subsets:

1) General Support Costs

Personnel, Accounting, Procurement, Legal

2) Mission Support Costs

Utilities, Maintenance, Security

3) Site Specific Costs

LDRD, Taxes, Award Fee

FUNCTIONAL COSTS ...

- Are Not “Overhead”, but can be viewed as a proxy for site-wide overhead
- Are Not Accounting Data, but are estimated from accounting data
- Are Not Necessarily Bad

What Functional Cost Accomplishes

- While functional support activities consumed a large portion of DOE's site-wide budgets, there had previously been little consistent information at the DOE wide level
- In today's environment, it is paramount that the Department control, report and understand all costs including Functional Support costs
- Provides a system for all sites to report cost using consistent definitions
- Peer reviews validate data integrity and increase reporting consistency

Who Uses Functional Cost Data?

- Congress
- GAO
- Program Offices
- Field Offices

ENERGY AND WATER DEVELOPMENT APPROPRIATIONS
BILL, 1999

JUNE 16, 1998.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. McDADE, from the Committee on Appropriations,
submitted the following

REPORT

[To accompany H.R. 4060]

The Committee on Appropriations submits the following report in explanation of the accompanying bill making appropriations for energy and water development for the fiscal year ending September 30, 1999, and for other purposes.

FUNCTIONAL SUPPORT COST SYSTEM

The Committee commends the Department on the development of the Functional Support Cost Report and encourages the Department to continue efforts to improve its accuracy and usefulness. The report has proven to be a useful tool in better understanding the Department's operating costs and provides evidence that the Department is actively working to control and reduce functional support costs. There are significant concerns that the overhead rates charged by the Department's contractors are quite high, and often duplicative when charged by prime contractors and subcontractors on the same project. The Department is directed to work with the Committee to determine what steps can be taken to better understand the existing overhead structure and possible changes that could reduce overhead rates and provide more funds for direct program activities.

EXCESSIVE CONTRACTOR TRAINING COSTS

The Department of Energy provides funding to train contractor employees on a wide variety of subjects to improve such things as managerial expertise, job knowledge, working relationships, and

REPORT ON FUNCTIONAL SUPPORT COSTS

Chairman Callahan: For the record, please provide the fiscal year 2001 Functional Support Cost Report.

Secretary Abraham: Attached is an advance copy of the fiscal year 2001 Functional Support Cost Report. We are currently reviewing and evaluating the data received from our Field offices for this report. We expect to complete this effort shortly and will provide the Committee with the final report.

I am pleased to report that functional support costs have continued their decline as a percentage of total costs. From our baseline of 43.2 percent in FY 1995, the functional support cost percentage dropped to 40.3% in FY 2000 and to 39.4% in FY 2001. This reduction indicates that we have been successful in reducing support costs in relation to mission direct costs.

Hearing Date/Question Number(s): March 6 Hearing, Question Number 42
Prepared By: Thomas Fisher Org Code: ME-100 Phone: (301) 903-2551
PSO Initials:
Date:



GAO

Accountability • Integrity • Reliability

United States General Accounting Office
Washington, DC 20548

August 13, 2001

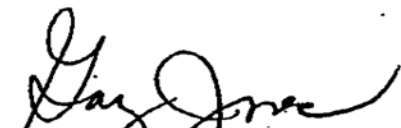
Ms. Juanita McDuffie
Audit Liaison Specialist
Office of the Chief Financial Officer
U.S. Department of Energy
1000 Independence Ave. SW
Room 4B-194
Washington, D.C. 20585

Dear Ms. McDuffie:

GAO has started an assignment, at the request of the Chairman, Senate Armed Services Subcommittee on Emerging Threats and Capabilities, to review DOE's national laboratory overhead rate structure. Initially, we will be examining how overhead rates are established, their reasonableness, and how DOE is managing the rate structure.

Our work will be performed by GAO's Natural Resources and Environment Team. We anticipate that our primary work location would be within DOE's Office of the Chief Financial Officer. This assignment will begin immediately under job code 360129.

Sincerely yours,


(Ms.) Gary L. Jones
Director, Natural Resources
And Environment

FCRS Overview

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EM Functional Cost Reporting Analysis



U.S. Department of Energy
FY 1995 - FY 2001



Department of Energy

Idaho Operations Office
850 Energy Drive
Idaho Falls, Idaho 83401-1563

February 26, 2002

Mr. Robert E. Williams, Vice President & CFO
Business Management
Bechtel BWXT Idaho, LLC
P.O. Box 1625, MS 3560
Idaho Falls, ID 83415

SUBJECT: Increase in Legal Costs (CF&AO-FSD-02-059)

Dear Mr. Williams:

Based on our review of the latest functional cost information, we have noticed a dramatic increase in the amount reported for legal activities. The information shows that legal costs have increased from approximately \$600,000 in FY 1995 to over \$9M in FY 2001.

We understand that one of the factors in this cost growth was the qui tam case. Since this case has been closed/settled, we would expect that there would be no continuing costs associated with this activity during FY 2003 and subsequent years.

Another major driver of legal costs is the PIT 9 case. It appears, based on FY 2001 information, that \$6.3M was spent for this activity. We know that there is a need to litigate this case, but we question the large amount that is being spent (approximately \$14.2M over four years) and whether it is being efficiently spent. Please review this expenditure to assure it represents a fair and reasonable price and value for the government. I would appreciate hearing from you on the results of your analysis.

If you have any questions, please give me a call at 526-1064.

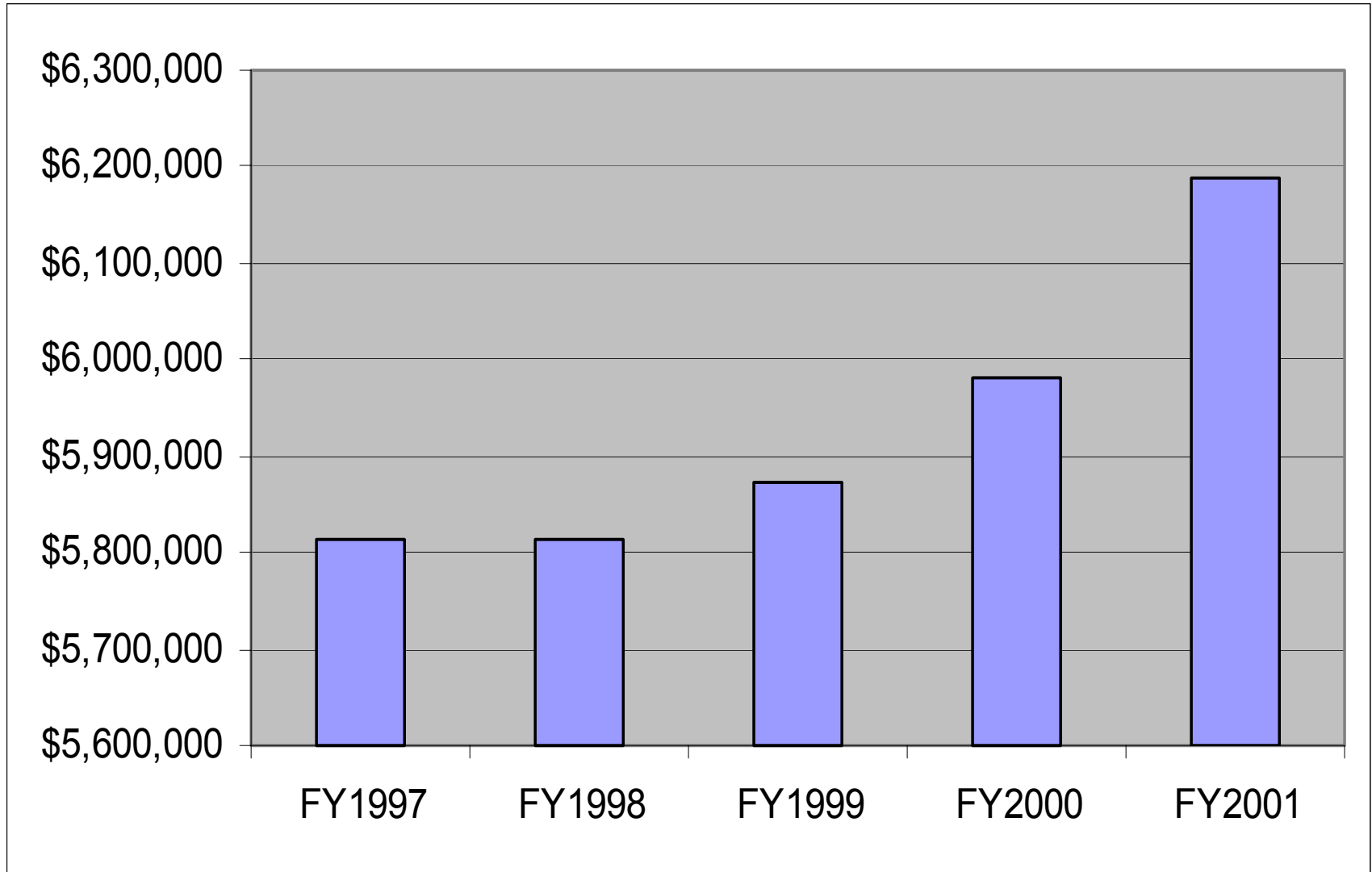
Sincerely,

A handwritten signature in black ink, appearing to read "Paul B. Keele", is written over a horizontal line.

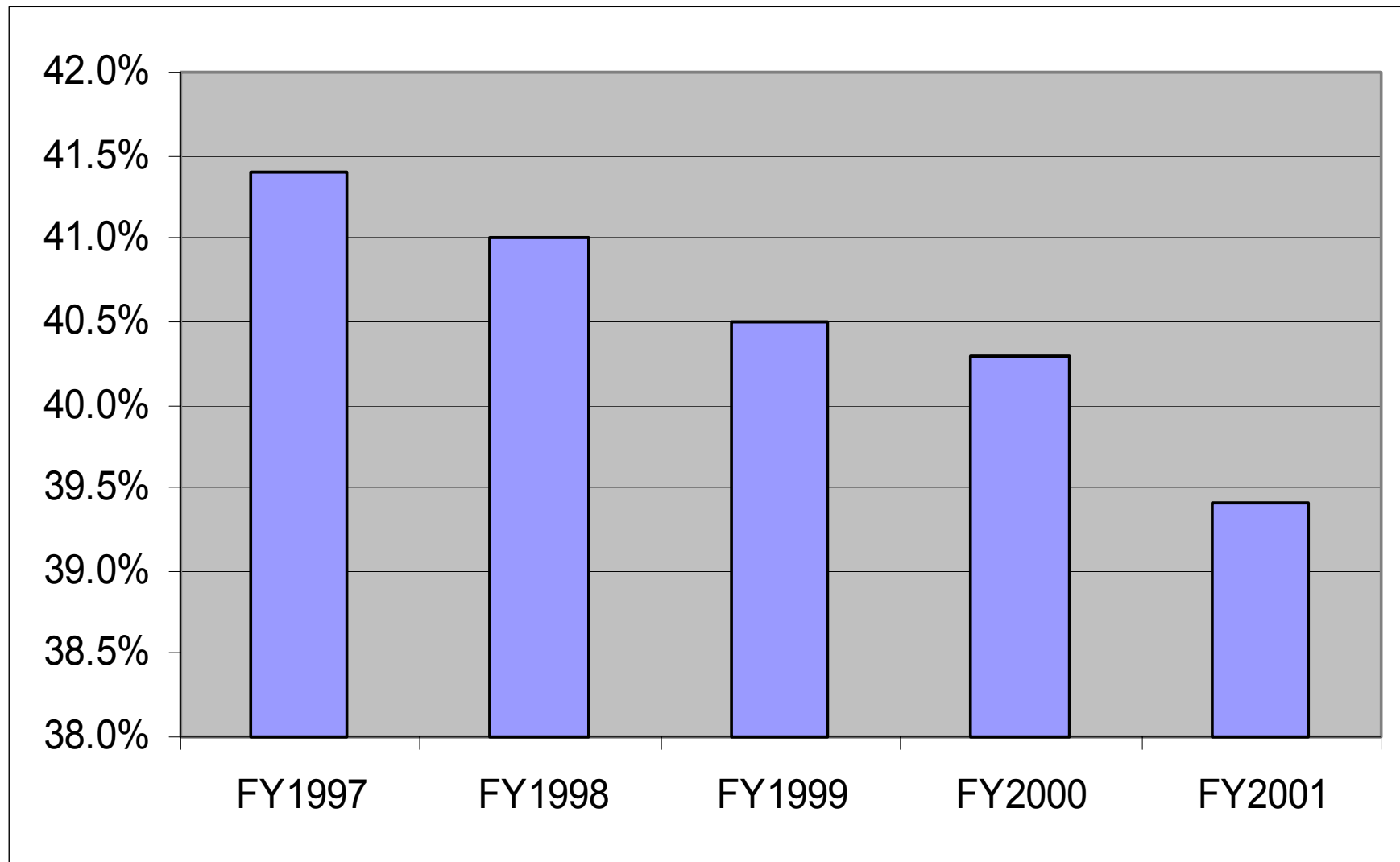
Paul B. Keele, Deputy Assistant Manager
Chief Financial and Administrative Office

Functional Support Costs by Fiscal Year

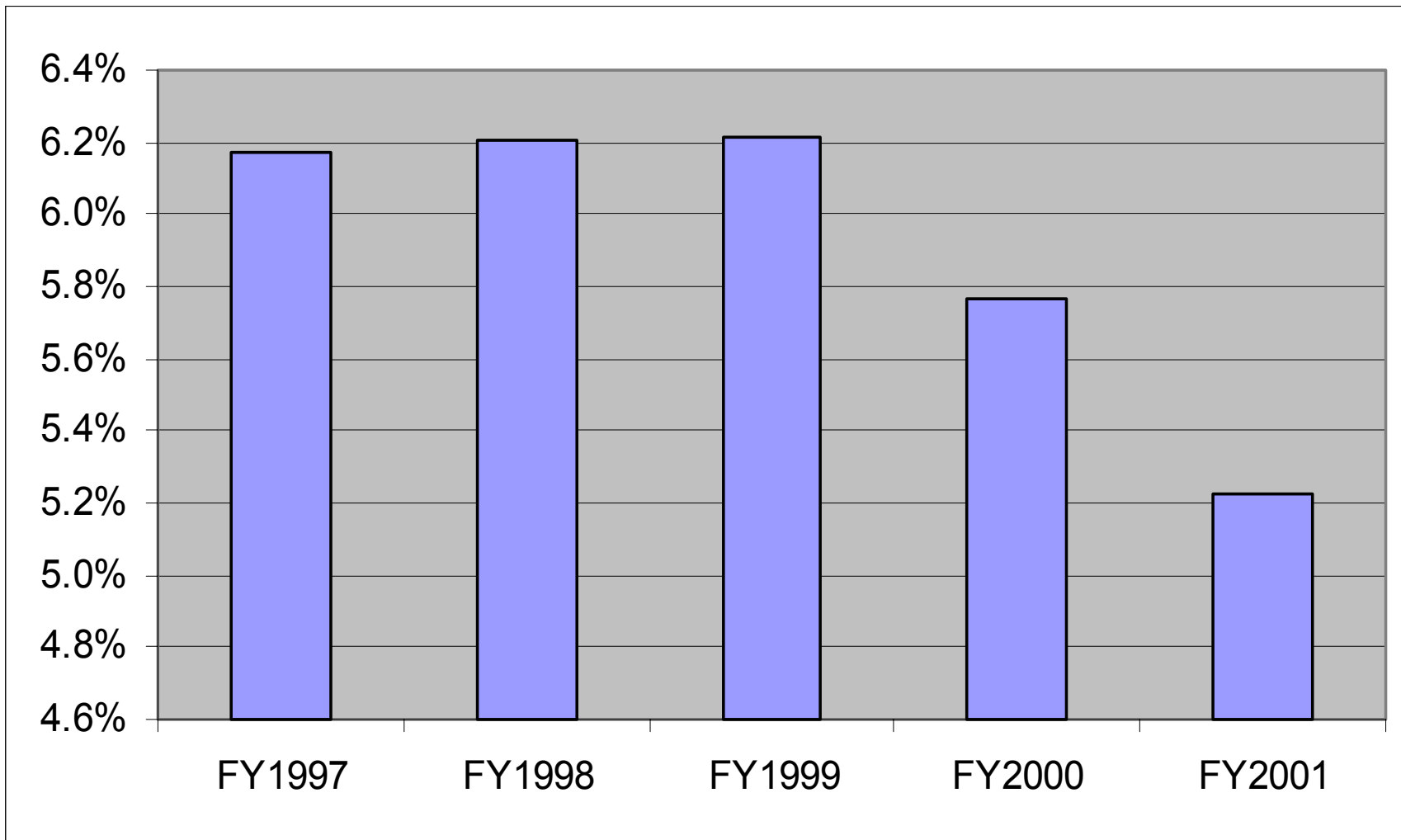
(\$ in 000's)



Functional Support Costs as a Percent of Total Costs



Maintenance as a % of Total Cost



RESULTS

- Functional Support Costs Have Increased By \$374 Million from FY1997 to FY2001
- However, the Percentage of Functional Cost to Total Cost Has Declined from 41.4% in FY1997 to 39.4% in FY 2001
- Comparable data can be used as a starting point to identify cost drivers, best practices, benchmarks and performance indicators

In summary.....

While the Functional Cost Report provides management with a useful tool, scrutiny is increasing

- Can we improve the timeliness and relevance of the data ?
- Can we better utilize functional cost across the Department ?